Upcoming Events

October:

17/10: UK Labour Market Overview

18/10: ONS Inflation Data

20/10: ONS Retail Sales Data

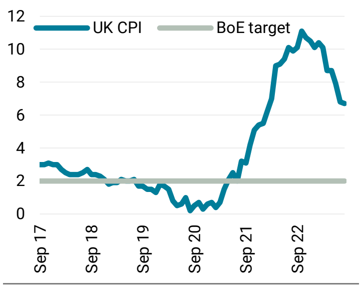
20/10: GfK Consumer Confidence

November:

02/11: November MPC Summary

Chart of the moment

UK CPI



Source: ONS, Bloomberg

25 September 2023

Out of the woods?

The latest slew of data appears to hint at the beginnings of a consumer recovery, supported by moderating inflation, real-wage growth, and a resilient labour market. The Bank of England's decision to maintain the base rate at 5.25% suggests the end of an unprecedented tightening cycle, albeit the full impact of higher borrowing costs has not yet been felt, as homeowners increasingly roll onto more expensive fixed rate deals. Corporate updates largely confirming resilient trading over the past six months. Outlooks are broadly unchanged, albeit sounding a cautious tone for the balance of the year.

Retail sales recovered some ground following the large fall seen in July, as more settled weather brought consumers back into the shops. Sales volumes (inc. auto fuel) rose by 0.4% month on month in August, driven by a partial bounce back in food sales (+1.2% MoM), and a stronger month for clothing (+2.3% MoM). August's data was only slightly below market expectations of a 0.5% increase, partially offsetting the 1.1% month on month decline in volumes reported in July, when unseasonably wet weather negatively impacted footfall. Inflation continues to drive a wedge between sales volumes and value, with sales volumes down 1.4% YOY versus August 2022, but 6.4% higher in value terms. This divergence is even more notable versus pre-covid levels of February 2020 with August retail sales 17.3% higher in value terms, despite volumes being 1.5% lower. **Online sales** mix declined in August, down 1.3% versus July, where demand was boosted by poor weather and online promotions (including Amazon Prime Day). Online sales remain below long-term trend implying potential to regain market share through the wetter winter months.

UK CPI unexpectedly dipped to 6.7% in August, below market expectations, and down on the 6.8% reported in July. Economists expected inflation to come in at 7.0% annually, amid a slight uptick in prices at the pump, but large downward effects from restaurants and hotels, food and non-alcoholic beverages, recreation and culture, and furniture and household goods more than offset higher fuel costs. August's print was the lowest since February 2022, and a notable moderation versus a peak 11.1% In October 2022, albeit CPI remains well above the Bank of England's 2% target. The downside surprise was key to the BoE's decision to hold off on further rate hikes.

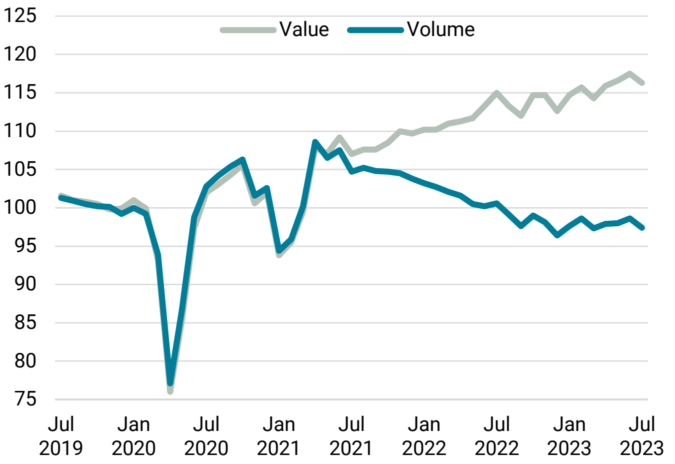
UK Base Rate was held at 5.25% last week, defying expectations for a 15th consecutive hike, driven primarily by the better-than-expected inflation print. The decision to maintain rates was closely fought, with bank's Monetary Policy Committee split five to four in favour of leaving rates unchanged. The move has sparked speculation of an end to the current tightening cycle (versus previous expectations for the base rate to peak at 5.75%) albeit the committee indicated intentions to leave rates at 5.25% for some time, echoing the US Fed's "higher for longer" narrative. Several mortgage providers have lowered rates in response; on Thursday, the average cost of a two-year mortgage was 6.58%, compared with the 15-year high of 6.85% at the start of August, with several providers now offering five-year fixed rates below 5%.

Consumer confidence was at its highest level in almost two years in September. The GfK consumer confidence index increased by 4 points to minus 21, its strongest level since January 2022 immediately prior to Russia's invasion of Ukraine, up from a low of minus 49 in September 2022.The reading was better than the minus 27 forecast by economists with the improvement attributed to falling inflation, growth in real wages and continued low unemployment.

UK labour market remains robust, with Unemployment at just 4.3% in the three months to July, vs. 4.2% in the prior month. UK wages grew at record pace, with annual growth in average pay (ex. bonuses) maintained at 7.8% - the highest rate since records began in 2001. Total pay growth of 8.5% was boosted by one-off payments to NHS workers and civil servants following deals to end strikes.

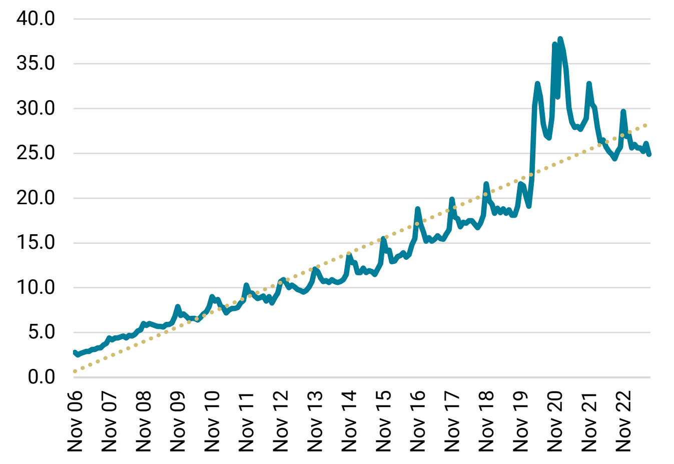
Charts

Exhibit 1: Retail sales volume vs. value



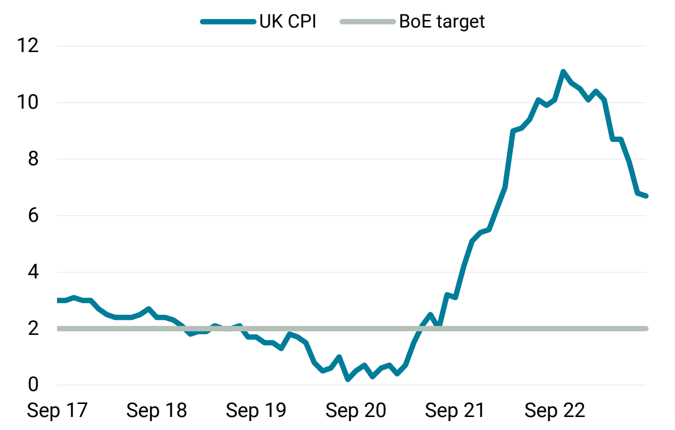
Source: ONS

Exhibit 2: Online sales as % of retail sales



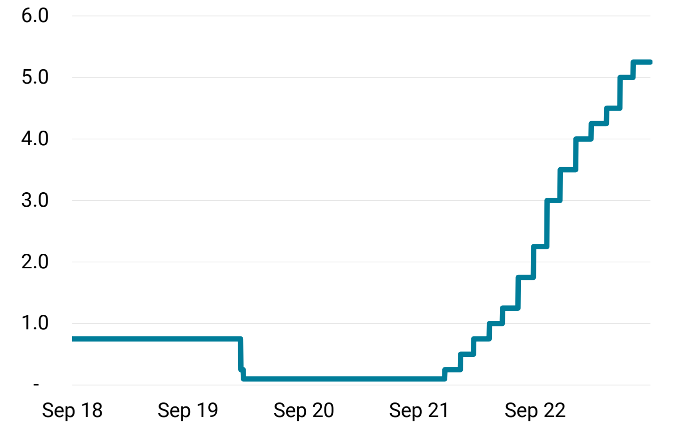
Source: ONS

Exhibit 3: UK CPI



Source: ONS, Bloomberg

Exhibit 4: UK base rate (%)

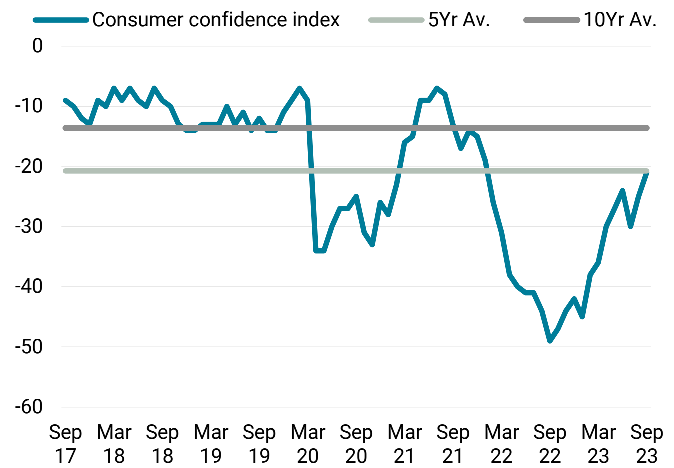


Source: Bank of England, Bloomberg

Exhibit 5: UK unemployment rate (%)

Source: ONS, Bloomberg

Exhibit 6: UK consumer confidence index



Source: GfK, Bloomberg

RNS

Corporate updates largely confirming resilient trading over the past six months. Outlooks are broadly unchanged, albeit sounding a cautious tone for the balance of the year.

Games Workshop (GAW LN) released a trading update confirming current trading ahead of expectations, with Q1 revenue of c.£127m and PBT estimated at £57m, driven by growth across all channels. It also declared a dividend of 50 pence per share in line with its policy to distribute surplus cash.

Finsbury Food Group (FIF LN) announced a recommended acquisition by DBAY Advisors for 110p per share in cash, valuing the business at £143.3m. The offer represented a 23.6% premium to the prior closing share price of 89.0p on 19 September and a 54.9% premium to the price prior to disclosure of DBAY's interest on 2 September 2022.

Next plc (NXT LN) reported H1 results with performance ahead of expectations. Brand full price sales were +3.2% YOY with exceptionally warm weather in late May and June boosting sales of summer clothing. Better than expected demand was attributed to nominal wage increases and the robust employment market. FY24 outlook upgraded with demand and profitability to benefit from continued easing of inflationary pressures.

Watches of Switzerland (WOSG LN) shares fell sharply after Rolex announced the acquisition of retailer Bucherer SA. An update from the Group sought to reassure investors that there will be no change in the Rolex processes of product allocation or distribution developments as a consequence of this acquisition.

The Restaurant Group (RTN LN) announced the proposed sale of its Leisure business comprising of 75 trading sites and associated restaurant and management team employees to the Big Table Group. As part of the transaction, TRG will pay a cash contribution of £7.5m to the Big Table Group. The transaction is expected to complete in early Q4 2023.

Superdry (SDRY LN) FY23 results reported revenue +2.1% to £622.5m with adj. loss before tax of £21.7m impacted by delayed recovery in Wholesale, and the return to normal rent and business rates. Yearend net debt of £25.6m. Actions to improve the balance sheet continue, including IP sale and equity raise together yielding approximately £45m after year-end, alongside a cost saving programme to deliver £35m, to be fully realised in FY24. Agreed loan facilities during FY23 with Bantry Bay Capital for up to £80m, and a further £25m facility with Hilco Capital agreed post year end.

Primark parent company Associated British Foods (ABF LN) released a trading update confirming resilient trading, albeit with H2 growth moderating vs. H1, attributed to extreme weather across UK and Europe impacting footfall and transactions through H2. Full year operating profit margin guidance is revised lower at c.8% (previously c.8.3%), attributed to 'higher than expected stock loss' (shoplifting), a trend that has been seen more widely across the sector. Outlook remains positive with cost tailwinds into FY24.

JD Sports (JD/ LN) released interim results in line with expectations, confirming it is on track to meet full year guidance. Group revenue growth of 8% to £4,783.9m and 12% on an organic basis. Premium Sports Fashion delivered 15% organic growth, with Adj. PBT of £373.5m, reflecting a more normal H1 contribution of c.35%. Balance sheet net cash of £1,276.5m, is +£263.4m YOY.

Dunelm (DNLM LN) reported FY23 Results in line with market expectations. Revenue of £1,638m +5.5% YOY in line with consensus. Adj. PBT of £192.7m -7.8% YOY marginal beat vs. consensus £190.9m. Outlook is positive, with robust trading early in the new financial year and value proposition resonating. Expected FY24 sales and PBT growth driven by increased volumes with easing freight costs supporting gross margin and a tight operational grip to help mitigate ongoing inflation in operating costs.

Naked Wines issued a profit warning alongside FY23 results. FY24 revenue to be 8-12% lower YOY (£308m - £322m) vs. consensus at £321.5m with Adj. EBIT guidance of £8-12m vs consensus at £12.7m is 21% downgrade at mid-point of new range. Net cash (ex-leases) of £10.3m expected to rise to £10-30m in FY24 as inventory unwind drives cash generation.

On the Beach (OTB LN) trading update reported record TTV of c.£1.1bn, +26% year on year driven by growth in volumes and average booking values. Group EBITDA is in line with market expectations and Group adjusted PBT is at the top end of the range of market expectations, benefitting from higher than anticipated interest income.

Currys (CURY LN) AGM Trading Statement confirmed trading in line with full year guidance. UK sales 2% lower with trend improving driven by robust sales in domestic appliances and mobile, offset by weakness in other categories, especially computing. Nordics revenue 8% lower, sales trends have improved slightly throughout period, although trading environment remains challenging.

Gear4music (G4M LN) AGM Statement confirmed trading for the financial year is in line with expectations, with management prioritising increasing gross margins and cost base reduction to improve profitability, ahead of revenue growth.

Revolution Beauty (REVB LN) announced the appointment of new CEO Lauren Brindley effective from 18 September. Her previous experience includes Group Vice President for Beauty & Personal Care at Walgreens and Head of Prestige Beauty & Fragrance and Head of the No.7 Beauty Brand & Mass Beauty categories at Boots.

B&M (BME LN) announced the Acquisition of Assets from Wilko acquiring up to 51 properties for the maximum aggregate consideration of £13m.

DFS Furniture (DFS) FY23 Results in line with expectations with FY24 outlook unchanged. It expects a further decline in the upholstery market order volumes in FY24 before they start to recover given the ongoing pressures on the consumer. Its baseline assumption is that the market will decline by a further 5% in volume terms in FY24. YTD order intake has strengthened back into positive growth in line with our expectations and helped by the expected opportunity from weaker prior year comparative.

Quiz (QUIZ LN) issued a profit warning Sales in 5 months to 31 August -15.3% to £37.0m with sales down across UK stores & concessions -11.5% due to lower store traffic, online -23.8% impacted in particular by lower third party website sales, and International sales across its Irish stores and concessions down 10.5%. FY24 revenue to be c. 6 to 7% lower than current market expectations (FY 2023: £91.7m) c.£85.7m with EBITDA a small positive vs consensus of £6.2m.

Moonpig (MOON LN) AGM Trading Update confirmed trading in line and reiterated existing guidance for revenue growth at a low single digit percentage rate H1, underpinned by the Moonpig brand, which remains in growth. Full year revenue growth to improve to a mid to high single digit percentage rate, with all brands returning to growth in the second half. Adjusted EBITDA margin is expected to remain resilient.

Warpaint (W7/ LN) Interim Results reported strong growth in sales across all geographic regions, to achieve a record first half. Gross profit margin increased to 39.1% (H1 2022: 39.0%), due to successful management of continued supply side inflation. Adjusted EBITDA of £7.9m (H1 2022: £4.4m,) vs. £19.0m full year consensus. Consistent with previous years due to Christmas gifting orders and its momentum, the Group's sales are expected to again be second half weighted – 60% revenue and 60% EBITDA.

TEN Entertainment (TEG LN) interim results reported +3.3% total sales growth (+1.6% LFL) driven by increased footfall with bowling prices frozen at 2019 levels to maintain attractive proposition. Group adjusted PBT of £15.8m, ahead of last year despite lapping £2m of one-off benefits from 2022. Confident in the outlook despite challenging macro market conditions. Year to date LFL sales to 10 September are +4.7% which is at the upper range of full year expectations.

Zeus is a leading independent financial services group working across public and private capital markets in the UK. Our core services include Investment Banking, Equity Sales, Research and Trading, and Investment Management.

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